CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE

14TH DISTRICT AGRICULTURAL ASSOCIATION
SANTA CRUZ COUNTY FAIR
WATSONVILLE, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

AUDIT REPORT #09-011
FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007

14TH DISTRICT AGRICULTURAL ASSOCIATION
SANTA CRUZ COUNTY FAIR
WATSONVILLE, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007

AUDIT STAFF

Ron Shackelford, CPA	Audit Chief
Shakil Anwar, CPA	Assistant Audit Chief
Anthony DelMastro	Auditor
Marinette Babida	Auditor

AUDIT REPORT NUMBER

#09-011

14TH DISTRICT AGRICULTURAL ASSOCIATION
SANTA CRUZ COUNTY FAIR
WATSONVILLE, CALIFORNIA

TABLE OF CONTENTS

Ms. Judy Belgard-Akimoto, President
Board of Directors
14th DAA, Santa Cruz County Fair
2601 East Lake Avenue
Watsonville, California 95076

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of financial condition of the 14th District Agricultural Association (DAA), Santa Cruz County Fair, Watsonville, California, as of December 31, 2008 and 2007, and the related statements of operations and changes in accountability, and cash flows-regulatory basis for the years then ended. These financial statements are the responsibility of the 14th DAA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We have conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our previous audit report #08-011, dated March 13, 2009, we expressed an opinion that we were unable to satisfy ourselves to the amount stated in the accompanying financial statements for Account #131, Accounts Receivable – Net, (stated as $15,558) at December 31, 2007, and Account #245, Compensated Absences Liability, (stated at $12,430) at December 31, 2007. The reason was the amount for employee receivables is being analyzed and has not been agreed upon. As of June 2009 and year-end 2008, the 14th DAA recorded the receivable and compensated leave liability, respectively, to conform with accounting principles generally accepted in the United States of America. Accordingly, our present opinion on the year 2007 financial statements, as presented herein, is different from that expressed in our previous report.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the 14th DAA, Santa Cruz County Fair, as of December 31, 2008 and 2007, and the results of its operations and changes in net resources for the years then ended, in conformity with accounting principles generally accepted in the United States of America

The 14th DAA, Santa Cruz County Fair has not presented the Management's Discussion and Analysis, which the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management Report #09-011, on the 14th DAA's compliance with State laws and regulations and system of internal accounting control, is issued solely for the purpose of additional analysis and should be addressed by the 14th DAA as appropriate. This additional report, however, is not a required part of the basic financial statements.

Ron Shackelford, CPA
Chief, Audit Office

July 31, 2009

14TH DISTRICT AGRICULTURAL ASSOCIATION
SANTA CRUZ COUNTY FAIR
WATSONVILLE, CALIFORNIA

STATEMENTS OF FINANCIAL CONDITION
December 31, 2008 and 2007

	Account Number	2008	2007
ASSETS			
Cash	111-117	369,245	123,555
Accounts Receivable, Net	131-133	12,245	15,558
Deferred Charges	143	8,402	-
Construction in Progress	190	1,500	1,500
Land	191	8,500	8,500
Buildings and Improvements, Net	192	2,034,126	2,097,410
Equipment, Net	193	48,255	113,876
TOTAL ASSETS		**$ 2,482,273**	**$ 2,360,399**
LIABILITIES AND NET RESOURCES			
Liabilities			
Accounts Payable & Other Liabilities	212-226	76,425	236,991
Deferred Income	228	13,450	(200)
Guaranteed Deposits	241	11,400	24,712
Compensated Absences Liability	245	20,423	12,430
Long Term Debt	250	193,466	62,446
JLA Consignment	252	-	50,000
Trust Liability	259	-	62,989
Total Liabilities		**315,164**	**449,368**
Net Resources			
Net Resources - Junior Livestock Auction	251	36,133	28,366
Net Resources - Operations	291	38,595	(378,292)
Net Resources - Capital Assets, less Related Debt	291.1	2,092,381	2,221,286
Total Net Resources Available		**2,167,109**	**1,871,360**
TOTAL LIABILITIES AND NET RESOURCES		**$ 2,482,273**	**$ 2,320,729**

14TH DISTRICT AGRICULTURAL ASSOCIATION
SANTA CRUZ COUNTY FAIR
WATSONVILLE, CALIFORNIA

STATEMENTS OF OPERATIONS/CHANGES IN ACCOUNTABILITY
December 31, 2008 and 2007

	Account Number	2008	2007
REVENUE			
State Apportionments	312	$ 124,000	$ 124,000
Capital Project Reimbursement Funds	317 & 319	25,475	68,000
Other	340	33,416	40,000
Admissions	410	377,519	345,686
Commercial Space	415	62,649	54,625
Carnival	421	73,044	71,000
Food Concessions	422	144,147	123,903
Exhibits & Horse Show	430-440	43,936	51,452
Miscellaneous Fair	470	98,865	100,289
JLA Revenue	476	24,864	21,599
Non-Fair Revenue	480	564,347	444,516
Prior Year Adjustment	490	81,224	1,081
Other Revenue	495	3,741	1,920
Total Revenue		**1,657,227**	**1,448,072**
EXPENSES			
Administration	500	272,009	411,198
Maintenance and Operations	520-530	389,150	663,216
Publicity	540	90,368	78,172
Attendance	560	82,355	97,957
Miscellaneous Fair	570	2,482	26,532
JLA Expense	576	25,016	14,033
Premiums	580	25,151	32,258
Exhibits	630	136,091	133,085
Horse Show	640	16,596	17,206
Fairtime Attractions, Interim Attractions	660	108,319	100,222
Equipment	723	-	3,488
Prior Year Adjustments	800	62,249	(54,019)
Cash Over/Short from Ticket Sales	850	(281)	-
Depreciation Expense	900	120,473	130,263
Other Expenses	945	31,500	-
Total Expenses		**1,361,478**	**1,653,611**
RESOURCES			
Net Change - Income / (Loss)		295,749	(205,539)
Resources Available, January 1		1,871,360	2,076,899
Resources Available, December 31		**$ 2,167,109**	**$ 1,871,360**

14TH DISTRICT AGRICULTURAL ASSOCIATION
SANTA CRUZ COUNTY FAIR
WATSONVILLE, CALIFORNIA

STATEMENTS OF CASH FLOWS - REGULATORY BASIS
December 31, 2008 and 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of Revenue Over Expenses (Expenses Over Revenue)	295,749	(205,539)
Adjustment to Reconcile Excess of Revenue Over Expenses to Net Cash Provided by Operating Activities:		
(Increase) Decrease in Accounts Receivable	3,313	(13,323)
(Increase) Decrease in Deferred Charges	(8,402)	-
Increase (Decrease) in Accounts Payables & Other Liabilities	(200,236)	137,426
Increase (Decrease) in Deferred Income	13,650	(16,116)
Increase (Decrease) in Compensated Absence Liability	7,993	-
Increase (Decrease) in Guarantee Deposits	(13,312)	(36,649)
Total Adjustments	(196,994)	71,338
Net Cash Provided (Used) by Operating Activities	**98,755**	**(134,201)**
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) Decrease in Construction in Progress	-	(1,500)
(Increase) Decrease in Buildings & Improvements, Net	63,284	96,902
(Increase) Decrease in Equipment, Ne	65,621	(96,932)
Net Cash Provided (Used) by Investing Activities	**128,905**	**(1,530)**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase (Decrease) in Long-Term Liability	131,019	62,446
Increase (Decrease) in JLA Consignment	(50,000)	50,000
Increase (Decrease) in Trust Liability	(62,989)	62,989
Net Cash Provided (Used) by Financing Activities	**18,030**	**175,435**
NET INCREASE (DECREASE) IN CASH	**245,690**	**39,704**
Cash at Beginning of Year	123,555	83,851
CASH AT END OF YEAR	**$ 369,245**	**$ 123,555**

14th DISTRICT AGRICULTURAL ASSOCIATION
SANTA CRUZ COUNTY FAIR
WATSONVILLE, CALIFORNIA

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008 and 2007

NOTE 1 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organization - The 14th District Agricultural Association (DAA) was formed for the purpose of sponsoring, managing, and conducting the Santa Cruz County Fair each year in Watsonville, California. The State of California, Department of Food and Agriculture, through the Division of Fairs and Expositions provides oversight responsibilities to the DAA. The DAA is subject to the policies, procedures, and regulations set forth in the California Government Code, California Business and Professions Code, Public Contracts Code, Food and Agricultural Code, State Administrative Manual, and the Accounting Procedures Manual established by the Division of Fairs and Expositions.

The State of California allocates funds annually to the DAAs to support operations and acquire fixed assets. However, the level of State funding varies from year to year based on budgetary constraints. The Division of Fairs and Expositions determines the amount of the allocations.

Basis of Accounting - The accounting policies applied to and procedures used by the DAA conform to accounting principles applicable to District Agricultural Associations as prescribed by the State Administrative Manual and the Accounting Procedures Manual. The DAA's activities are accounted for as an enterprise fund. The Governmental Accounting Standards Board (GASB) defines an enterprise fund as a fund related to an organization financed and operated in a manner similar to a private business enterprise where the intent is to recover the costs of providing goods or services to the general public primarily through user charges. Pursuant to GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Account, the DAA has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do no conflict with or contradict GASB pronouncements.

The DAA's financial activities are accounted for using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board. Thus, revenues are reported in the year earned rather than collected, and expenses are reported in the year incurred rather than paid.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes – The DAA is a state agency and therefore, is exempt from paying taxes on its income.

Cash and Cash Equivalents - The DAA's cash and cash equivalents are separately held in various local banks. The Financial Accounting Standards Board defines cash equivalents as short-term, highly liquid investments that are both: (1) readily convertible to known amounts of cash; and (2) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. The cost of all cash equivalents of the DAA approximates market value.

The California State Treasury makes available the Local Agency Investment Fund (LAIF) through which local governments may pool investments. Each governmental entity may invest up to $40,000,000 in the fund. Investments in the LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest.

In accordance with the Accounting Procedures Manual, the DAA is authorized to deposit funds in certificates of deposit and interest bearing accounts. However, Government Code Sections 16521 and 16611 require the bank or savings and loan association to deposit, with the State Treasurer, securities valued at 110 percent of the uninsured portion of the funds deposited with the financial institution. Government Code Sections 16520 and 16610 provide that security need not be required for that portion of any deposit insured under any law of the United States, such as FDIC and FSLIC.

Inventories – Inventories, if any, consists primarily of souvenir items sold during fair time, and is stated at cost.

Property and Equipment - Construction-in-progress, land, buildings and improvements, and equipment are acquired with operating funds and funds allocated by the State. Any acquired assets, if greater than $5,000 and a useful life of one or more years, are recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the asset. Buildings and improvements are depreciated over 30 years, and purchases of equipment are depreciated over five years. Costs of repair and maintenance are expensed as incurred by the DAA. Furthermore, donated building improvements, and equipment are recorded at their fair market value at the date of the gift. This recorded basis is depreciated over the useful lives identified above. The costs of projects that have not been placed in service are recorded in Account #190, Construction-in-Progress, and no depreciation is recorded on Construction-in-Progress until the project is completed and the asset is placed in service.

Compensated Absences - Pursuant to Statement No. 16 of the Governmental Accounting Standards Board, State and local governmental entities are required to report the liability for compensated absences. Compensated absences are absences for which permanent employees will be paid, such as vacation, personal leave, and compensatory time off. The compensated absences liability is calculated based on the pay rates in effect at the balance sheet date.

NOTE 2 **NEW ACCOUNTING STANDARDS**

In July 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* ("GASB Statement No. 45"). This statement establishes standards for the measurement, recognition, and display of postretirement benefits other than pensions expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The statement becomes effective for the District for periods beginning after December 15, 2007. Management has not determined the effect of GASB Statement No. 45 on the combined financial statements.

In September 2006, the GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Receivables and Future Revenues,* ("GASB Statement No. 48"). GASB Statement No. 48 establishes criteria that governments will use to ascertain whether the proceeds received should be reported as revenue or as a liability. The criteria should be used to determine the extent to which a transferor government either retains or relinquishes control over the receivables or future revenues through its continuing involvement with those receivables or future revenues. This Statement establishes that a transaction will be reported as a collateralized borrowing unless the criteria indicating that a sale has taken place are met. If it is determined that a transaction involving receivables should be reported as a sale, the difference between the carrying value of the receivables and the proceeds should be recognized in the period of the sale in the change statements. If it is determined that a transaction involving future revenues should not be reported as a sale, the revenue should be deferred and amortized, except when specific criteria are met. This Statement also provides additional guidance for sales of receivables and future revenues within the same financial reporting entity. This statement is effective for periods beginning after December 15, 2006. Adoption of this statement did not have a material impact on the combined financial statements.

In November 2006, the GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations,* (“GASB Statement No. 49”). GASB Statement No. 49 requires governmental entities to report pollution remediation costs in their financial statements. It identifies five obligating events under which the government should estimate the expected obligations for pollution remediation. Under the standard, liabilities and expenses will be estimated using an “expected cash flows” measurement technique, which will be employed for the first time by governments. Further, the standard requires that governments disclose information about their pollution remediation obligations associated with clean-up efforts in the notes to the financial statements. GASB Statement No. 49 will be effective for financial statements with periods beginning December 15, 2007, but liabilities should be measured at the beginning of that period so that beginning net assets can be restated. Management has not determined the effect of GASB Statement No. 49 on the combined financial statements.

In May 2007, the GASB issued Statement No. 50, *Pension Disclosures,* (GASB Statement No. 50”). GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (“OPEB”) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (“RSI”) by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of GASB Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans,* (“GASB Statement No. 25”), and No. 27, *Accounting for Pensions by State and Local Governmental Employers,* (“GASB Statement No. 27”) to conform with requirements of Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* (“GASB Statement No. 43”) and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, (“GASB Statement No. 45”). GASB Statement No. 50 will be effective for financial statements with periods beginning after June 15, 2007. Management has not determined the effect of GASB Statement No. 50 on the combined financial statements.

In July 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets,* (“GASB Statement No. 51”). GASB Statement No. 51 requires that intangible assets be classified as capital assets (except for those explicitly excluded from the scope of the new standard, such as capital leases). GASB Statement No. 51 will be effective for financial statements with periods beginning after June 15, 2009. Management has not determined the effect of GASB Statement No. 51 on the combined financial statements.

NOTE 3 **CASH AND CASH EQUIVALENTS**

The following list of cash and cash equivalents were held by the DAA as of December 31:

	2008	2007
Petty Cash	$ 201	$ 200
Cash in Bank - Operating	269,656	(27,509)
Cash in Bank - Premium	8,040	(3,921)
Cash in Bank - Payroll	5,639	89
Cash in Bank – Investment & Savings	16,978	25,428
Cash in Bank – JLA	24,506	66,279
Cash in Bank - CD	-	62,989
Cash in Bank – Line of Credit	42,338	-
Cash in Bank – Jr. Livestock Awards	1,887	-
Total Cash and Cash Equivalents	$ 369,245	$ 123,555

NOTE 4 **ACCOUNTS RECEIVABLE**

The DAA is required to record an allowance for doubtful accounts based on estimates of collectability.

	2008	2007
Accounts Receivable	$ 3,234	$ 3,202
Accounts Receivable – JLA	9,011	12,356
Accounts Receivable - Net	$ 12,245	$ 15,558

NOTE 5 **PROPERTY AND EQUIPMENT**

Buildings and improvements, and equipment at December 31, 2008 and 2007 consist of the following:

	2008	2007
Building & Improvements	$ 3,903,682	$ 3,852,252
Less: Accumulated Depreciation	(1,869,556)	(1,754,842)
Building & Improvements - Net	$ 2,034,126	$ 2,097,410
Equipment	$ 303,639	$ 357,408
Less: Accumulated Depreciation	(255,384)	(243,532)
Equipment - Net	$ 48,255	$ 113,876

NOTE 6 **LONG-TERM DEBT**

In February 2008, the 14th DAA, Santa Cruz County Fair has entered into a $200,000 revolving line of credit loan agreement with Santa Cruz County Bank for financial assistance to help pay the 2007 outstanding payables. The bank granted the line of credit along with the reporting requirement and conditions that the 14th DAA maintain primary banking relationship with the Santa Cruz County Bank and an annual CPA audited financial statements. The terms of the agreement are as follows:

Line of Credit Loan:

Loan Amount	$ 200,000
Loan Date	February 2008
Maturity Date	February 2009
Interest Rate	Prime + 1.5%, floating
Total Outstanding at 12/31/08	$ 193,466

NOTE 7 RETIREMENT PLAN

Permanent employees of the DAA are members of the Public Employees' Retirement System (PERS), which is a defined benefit contributory retirement plan. The retirement contributions made by the DAA and its employees are actuarially determined. Contributions plus earnings of the Retirement System will provide the necessary funds to pay retirement costs when accrued. The DAA's share of retirement contributions is included in the cost of administration. For further information, please refer to the annual single audit of the State of California.

Retirement benefits fully vest after five years of credited service for Tier I employees. Retirement benefits fully vest after ten years of credited service for Tier II employees. Upon separation from State employment, members' accumulated contributions are refundable with interest credited through the date of separation. The DAA, however, does not accrue the liability associated with vested benefits.

The Alternate Retirement Program (ARP) is a retirement savings program that certain employees hired on or after August 11, 2004 are automatically enrolled in for their first two years of employment with the State of California. ARP is administered by the Savings Plus Program with the Department of Personnel Administration and invests funds in a fixed-income fund. ARP provides two years of retirement savings (five percent of paycheck amount each month) in lieu of two years of service credit. At the end of the two-year period, the deductions are placed in CalPERS and the retirement service credit begins.

Temporary, 119-day, employees of the DAA participate in the Part-Time, Seasonal, Temporary (PST) Retirement Plan. The PST Retirement Plan is a mandatory deferred compensation plan under which 7.5% of the employee's gross salary is deducted before taxes are calculated. These pre-tax dollars are placed in a guaranteed savings program. The employee has the option of leaving these funds on deposit upon separation, or requesting a refund.

NOTE 8 **LITIGATION**

The 14th DAA is involved in various legal actions, arising in the normal conduct of its business, none of which, in the opinion of management, will have a material effect on its financial position or results of operations within the next year.

NOTE 9 **RECLASSIFICATION**

Certain prior-year balances have been reclassified to conform to current year presentation. This reclassification did not have an effect on net income.

14th DISTRICT AGRICULTURAL ASSOCIATION
SANTA CRUZ COUNTY FAIR
WATSONVILLE, CALIFORNIA

REPORT DISTRIBUTION

Number	Recipient
1	President, 14th DAA Board of Directors
1	Chief Executive Officer, 14th DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE

14TH DISTRICT AGRICULTURAL ASSOCIATION
SANTA CRUZ COUNTY FAIR
WATSONVILLE, CALIFORNIA

MANAGEMENT REPORT #09-011

YEAR ENDED DECEMBER 31, 2008

14TH DISTRICT AGRICULTURAL ASSOCIATION
SANTA CRUZ COUNTY FAIR
WATSONVILLE, CALIFORNIA

MANAGEMENT REPORT
YEAR ENDED DECEMBER 31, 2008

AUDIT STAFF

Ron Shackelford, CPA	Audit Chief
Shakil Anwar, CPA	Assistant Audit Chief
Anthony DelMastro	Auditor
Marinette Babida	Auditor

MANAGEMENT REPORT NUMBER
#09-011

TABLE OF CONTENTS

PAGE

Ms. Judy Belgard-Akimoto, President
Board of Directors
14th DAA, Santa Cruz County Fair
2601 East Lake Avenue
Watsonville, California 95076

In planning and performing our audit of the financial statements of the 14th District Agricultural Association (DAA), Santa Cruz County Fair in Watsonville, California, for the year ended December 31, 2008, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

In addition, this Management Report includes: (1) matters other than those related to the internal control structure which came to our attention that could, in our judgment, either individually or in the aggregate, have a significant effect on the entity's financial reporting process (e.g., accounting errors, significant audit adjustments, etc.), and (2) areas of non-compliance by the Santa Cruz County Fair with respect to State laws and regulations, with the Accounting Procedures Manual, and with established policies and procedures.

In accordance with Government Code Section 13402, Fair managers and Board of Directors are responsible for the establishment and maintenance of a system or systems of internal accounting and administrative control within their agencies. This responsibility includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions.

Due to the small size of the 14th DAA's office staff, it is not practical to have the degree of segregation of duties possible in a larger organization. Therefore, the Board of Directors must consider this when determining the extent that the Board becomes involved in operations to adequately safeguard the 14th DAA's assets. The system of internal control should provide the Board of Directors and management reasonable, but not absolute, assurance that: (1) only authorized transactions are executed; (2) transactions are properly recorded in the accounting records; and (3) material errors and irregularities that may occur, will be detected by the 14th DAA in a timely manner during the normal course of operations. In this regard, it is particularly important that the Board review and approve significant transactions and critically review monthly financial information. The 14th DAA's minimum staffing was one factor considered in determining the nature, timing, and extent of the tests to be performed on the 14th DAA's accounting procedures, records, and substantiating documents.

During our audit of the internal control structure of the 14th DAA and compliance with state laws and regulations, we identified five areas with reportable conditions that are considered weaknesses in the Fair's operations: unrecorded liability, delegated and opportunity purchasing, standard agreements, cash controls and unrestricted net resource accounts. We have provided 18 recommendations to improve the operations of the Fair. The Fair must respond in writing on how these recommendations will be implemented.

We also identified additional areas containing non-reportable conditions. These conditions and accompanying recommendations are not considered significant weaknesses. We have included these items solely for the benefit of the 14th DAA's management. We suggest the Fair implement the recommendations as soon as practicable. The Fair, however, is <u>not</u> required to provide written responses to the recommendations for non-reportable conditions.

REPORTABLE CONDITIONS

UNRECORDED LIABILITY

Based on our audit of accounts payable, our office noted the Fair did not record an accounts payable of $61,826 for an outstanding liability owed to the Internal Revenue Service (IRS) mentioned in our prior year audit. This amount includes principal, penalties, and interest accrued from a liability that arose from the Fair incorrectly reporting federal taxes withheld as of tax period December 31, 2005. The Fair's accounting records do not reflect this liability as of year-end 2008; as a result, the Fair has understated the liability account at December 31, 2008. This was a prior year audit finding.

Recommendation

1. *The Fair should establish the IRS liability of $61,826 within its accounting records as soon as possible. In the future, all obligations of the Fair should comply with generally accepted accounting principles (GAAP) and record all expenses in the general ledger within the accounting period they are incurred.*

DELEGATED & OPPORTUNITY PURCHASING

The Fair's compliance with State of California purchasing procedures was reviewed and the following weaknesses were noted:

a. The Fair does not have a current delegated purchasing authority from the Department of General Services (DGS). DGS requires DAAs throughout the State to renew delegated purchasing authority on an annual basis. Regardless of the type of purchase, the purchasing authority is granted for a twelve-month period. According to the DGS Purchasing Administrative Manual (PAM) Section 1.17, departments without approved purchasing authority are prohibited from conducting purchasing activities, including non-information technology (IT) goods exceeding $100, IT goods and services of any dollar value, and participation in the CAL-Card Purchase Card Program. This was a prior year audit finding.

b. The Fair did not comply with the Division of Fairs and Expositions (F&E) Accounting Procedures Manual (APM) when making opportunity purchases. Public Contract Code (PCC) Section 10321 states that local businesses often provide opportunity purchases to local fairs that may be purchased locally at a price equivalent to or less than that available through the state purchasing program; however, to claim an opportunity purchase, the Fair must demonstrate and provide copies of bid information or exemption justification when necessary. Also, per APM Section 2.2, the Fair must demonstrate that an opportunity purchase meets or is better than the State price. This was a prior year audit finding.

c. The Fair did not prepare a Standard Form 65, Contract/Delegation Purchase Order, for the purchase of goods exceeding $100. The Fair used internal purchase orders for all purchases. Internal purchase orders are allowed for purchases under $100. In addition, under the Delegated Purchasing Authority, the Fair is required to forward all purchase orders exceeding $100 to DGS.

Recommendations

2. *The Fair should work with DGS in order to obtain a renewal of its Delegated Purchasing Authority. Furthermore, the Fair should submit a yearly "Request for Delegated Purchasing Authority" in a timely manner to ensure that their authority does not expire. Once a purchasing authority expires, the Fair is prohibited from making delegated purchases that exceed $100.*
3. *The Fair should follow PCC and the guidelines in the APM for claiming opportunity purchases, which require obtaining bids and documenting that the price for the opportunity purchase meets or is better than the State price.*
4. *The Fair should comply with the purchase order requirements and complete a Purchase Order (Standard Form 65) for all purchases over $100.*

STANDARD AGREEMENTS

An examination of standard agreements revealed the following exceptions:

a. The Fair did not always prepare a Standard 204, Payee Data Record Form, for businesses/individuals receiving payment from the Fair. This form is used in lieu of the IRS Form W-9 and should be on file for taxpayer identification purposes. In addition, there was no evidence of federal backup withholdings. If no Standard 204 is prepared or accurately completed, federal backup withholding is required to be withheld. This was a prior year audit finding.

b. The Fair did not always prepare a standard agreement for businesses/individuals who received an IRS Form 1099-MISC, for services rendered. Failure to prepare a standard agreement exposes the Fair to considerable risk. The IRS Form 1099-MISC is issued to recipients of non-employee compensation of $600 or more from the Fair during the year. According to the APM, fairs are required to enter into a contract for all services performed by independent contractors. This was a prior year audit finding.

c. The Fair did not always prepare or issue an IRS Form 1099-MISC to contractors receiving $600 or more for services performed. The IRS requires this form be prepared any time contractors earn $600 of more in a calendar year. This was a prior year audit finding.

d. Based on review of the control log for standard agreements, we discovered that the Fair's control log was incomplete and did not summarize all contracts entered into. According to the APM, accurate control logs help mitigate the possibility of gap in sequential number.

e. The Fair did not always submit to CFSA proof of liability insurance for review and approval for six contracts reviewed. Fairs are required to submit insurance to CFSA for review, prior to services being performed, to verify that insurance provides adequate coverage.

f. The Fair did not prepare a Standard 215 Agreement Summary (Std 215) for each Standard 213 Agreement (Std 213) entered into as required by the F&E Contract Manual. According to the F&E Contract Manual, a Std 215 is necessary for contracts in excess of $10,000.

g. The Fair did not prepare the Contractor Certification Clause form CCC 307. This form should be completed for each personal service agreement that the Fair enters into. Moreover, the Fair did not include in each contract the General Terms and Conditions, form GTC 307; this form provides general terms and conditions according to the F&E Contract Manual.

h. The Fair did not submit quarterly contract reports listing all standard and rental agreements processed during the quarter, regardless of dollar amount or terms of the contract, to F&E, as required by the F&E Contract Manual.

i. The Fair did not obtain board approved delegation of authority limits for contract approval based upon dollar amount or type of contract for 2008 and submit them to F&E prior to December 31st, 2007. Also, there was no evidence in the board minutes of board approval of contracts. Failure to establish contract delegation limits by the board exposes the Fair to considerable risk.

Recommendations

5. *The Fair should ensure that a Std 204, Payee Data Record, is prepared for any business/individual receiving payment from the State of California (DAA). If no Std 204 is prepared or accurately completed, federal backup withholding is required to be withheld.*
6. *The Fair should ensure that a contract exists for any business/individual who receives an IRS Form 1099-MISC from the Fair for services rendered.*
7. *The Fair should ensure that it files a Miscellaneous Income Form 1099 for each independent contractor earning $600 or more in a calendar year.*
8. *The Fair should maintain an up-to-date control log that summarizes all standard agreements entered into. This helps control any circumvention of State rules through splitting of contracts.*
9. *The Fair should ensure that CFSA reviews and approves all insurance providers prior to the execution of a service contract to ensure insurance is adequate.*
10. *The Fair should comply with the F&E Contract Manual by ensuring a Std 215 Agreement Summary is prepared for each Std 213 Agreement.*
11. *For each personal service agreement entered into the Fair should ensure that form CCC 307 is completed and that the Fair includes the General Terms and Conditions, form GTC 307.*

12. *The Fair should ensure that a written justification explaining why multi-year contracts are in the best interest of the Fair is prepared for all multi-year contracts.*
13. *The Fair should ensure that a list of all standard and rental agreements entered into for the quarter is submitted to F&E for review.*
14. *The Fair board should approve delegation of authority limits annually prior to December 31st thus granting limits when entering into contracts. Furthermore, the board should note in the board minutes, review and subsequent approval of all material contracts prior to execution.*

CASH CONTROLS

An examination of the Fair's cash accounts identified the following internal control weaknesses:

a. All 2008 bank reconciliations were not signed by an approving officer to ensure the accuracy of the reconciliation. According to the APM Section 2.262 & 3.62, Bank Reconciliations, all bank accounts should be reviewed, dated, and signed by the Fair's CEO or approving officer to ensure a sufficient review has taken place.

b. The Fair did not follow F&E's check signing requirements for any checks in the amount of $15,000 or more. We noted several checks issued in excess of check signing requirements with only one signature. According to the APM Section 3.95, Check Signing, the State requires two signatures on any check for $15,000 or more. In addition, it was noted the payee of the check was also the signer of their own checks. These checks ranged from $785 to $1,560. When this occurs, there is a lack of oversight, thus a second signature or a signature from another bank authorized signer should be required.

c. The Fair could not locate a copy of the required Standard 445 Form, Report of Bank Saving & Loan Association Accounts Outside the Treasury System, for the fiscal year-end June 30, 2008; thus we could not verify whether the Fair prepared and/or submitted the required form. This report is required for all State agencies to report all accounts in which State money is deposited outside the centralized State Treasury System.

Recommendations

15. *The Fair should improve their internal controls over cash by ensuring the approving officer, preferably the Fair's CEO, review, sign and date the completed bank reconciliation for appropriateness.*
16. *The Fair should ensure any check in excess of $15,000 is signed by two bank-authorized signers to comply with the F&E check signing requirements. In addition, the Fair should ensure that the payee of the check does not sign their own check. Instead they should require a second signature or another signature from any bank authorized signer for oversight purposes.*

17. The Fair should ensure it retains a completed copy of the required form Std 445, Report of Bank Saving & Loan Association Accounts Outside the Treasury System, for every fiscal year-end June 30th.

UNRESTRICTED NET RESOURCE ACCOUNTS

As of December 31, 2008, the Fair maintained two unrestricted net resource accounts, Account #291, Net Resources – Operations, and Account #291.1, Net Resources – Capital Assets, within the general ledger. The F&E Depreciation Conversion Guide requires the Fair to consolidate the unrestricted resource accounts into one account. The purpose of this action is to (i) eliminate unnecessary resource accounts, (ii) avoid the closing of Fair revenue and expenses to different resource accounts, and (iii) eliminate the possibility of overstating revenue and expenses involving transfers between resource accounts. This was a prior year audit finding.

Recommendation

18. The Fair should comply with the F&E Depreciation Conversion Guide and consolidate the two unrestricted net resource accounts.

NON-REPORTABLE CONDITIONS

PERSONNEL PROCEDURES

A review of the payroll procedures revealed the following deficiencies:

a. The Fair allowed an employee to exceed the maximum leave accrual of 240 hours. This employee accrued approximately 299 Compensated Time Off (CTO) hours which exceeded the maximum leave accrual. The Department of Personnel Administration (DPA) limits the amount of hours that permanent employees may carry over to the following calendar year to a maximum of 240 hours. This was a prior audit finding.

b. The Fair did not accurately determine and report the correct balance of Account #245, Compensated Leave Liability, which was understated by $5,497. The understatement is due to the Fair's using the incorrect employee leave balance and incorrect employee hourly rate when calculating the leave liability. For example, the Fair reported a total of 208 leave hours at the employee's hourly rate of $29.23 at year-end; however, based on our review of the employee's leave record, we noted the correct total leave hours for this employee is 335 hours and hourly rate of $28.27, resulting in a variance of $3,590. This was a prior year audit finding.

c. Fair employees do not always sign their timesheets to certify the reported hours worked for the pay period were accurate. In addition, a supervisor does not always sign and date the permanent and temporary employees' time cards to approve and certify the hours were actually worked in a timely manner. For instance, the majority of the 2008 timesheets were approved in May 2009. According to the APM Section 4.1, Timecards and Leave Records, the Fair should maintain time cards for all employees to ensure compliance with labor laws related to overtime and paid leaves. They must be reviewed and signed by a supervisor and time cards should show hours worked and leave taken.

Recommendations

The Fair should ensure permanent employees do not maintain leave hours in excess of the DPA leave threshold.

The Fair should review employees' leave balances at year-end to ensure Account #245, Compensated Absences Liability, reflects the accurate liability amount.

The Fair should improve its controls over time card maintenance by reviewing and approving employees' time worked in a timely manner, and ensure that each employee signs their own respective timesheets.

ACCOUNTING FOR FIXED ASSETS

The Fair did not properly account for all donated projects in the Fair's general ledger and Account #192.1, Accumulated Depreciation – Buildings & Improvements, is understated by a total of $6,424. Upon examination of the Fair's property ledger, we noted that the Fair has not accounted for three projects, Green House Donation totaling $5,000, Cow Barn Restroom Donation totaling $12,512, and Paddy Smith Park Concrete totaling $5,000 in the Fair's general ledger. As a result the Fair did not capitalize buildings and improvements which met Department of Finance (DOF) capitalization criteria. According to the criteria, fixed assets used to conduct State business that cost at least $5,000 and have a useful life of at least one year should be capitalized.

Recommendation

The Fair should make the necessary correcting journal entries to ensure the amounts donated are recorded in the general ledger. In the future, the Fair should reconcile the general ledger to the property ledger to ensure all fixed asset transactions are properly accounted for prior to closing the accounting records and preparing the year-end financial reports. The Fair should adhere to Department of Finance regulations by capitalizing all items of equipment that meet the capitalization criteria of a cost at least $5,000 and a useful life of at least one year.

FAIR LABOR STANDARDS ACT RECREATIONAL EXEMPTION

The Fair did not calculate the federal Fair Labor Standards Act (FLSA) exemption percentage of gross revenues correctly. The percentage determines whether the Fair meets the recreational exemption in order to be exempt from paying time and one-half overtime to temporary employees. The FLSA calculation requires the monthly gross receipt figure be reported on the FLSA recreation worksheet. Gross receipts are defined as revenues collected by the Fair, which are available for operating use. Receipts should be included as revenue in the months actually received rather than the months when billed as accounts receivable. The Fair incorrectly used the reported operating revenue from the general ledger as the monthly figure on the FLSA recreation worksheet, which may include revenue received in prior months that was incorrectly recorded as deferred revenue and guarantee deposits.

Recommendation

The Fair should institute procedures to summarize receipts monthly by account number to aid in verification of the general ledger and in the preparation of the FLSA recreational exemption and use the monthly revenue figures from the cash receipts register for their recreational exemption calculations.

INDEPENDENT CONTRACTORS

The Fair was unaware that it is required to submit the Employment Development Department (EDD) form DE 542, Report of Independent Contractors, for independent contractors. The Fair is required to report to EDD within 20 days of paying or contracting for $600 or more with an independent contractor in any calendar year by submitting Form DE 542. According to EDD, any business or government entity that is required to file an IRS Form 1099-MISC for services received from an independent contractor is required to report specific independent contractor information to EDD. This information is used by EDD to locate parents who are delinquent in their child support obligations.

Recommendation

The Fair should comply with the State Senate Bill 542 that requires entities to report specified information to EDD on independent contractors within 20 days of either making payments totaling $600 or more or entering into a contract in any calendar year, whichever is earlier, to avoid penalty for failure to comply within the required timeframe.

DISTRICT AGRICULTURAL ASSOCIATION'S RESPONSE

January 13, 2010

We would like to start off this response by thanking Anthony DelMastro and M. for their assistance with staff and helping us understand and learn more about the process.to comply with reporting for the State of California.

We have just received the new Administrative Manual from F&E and are studying a section at a time during regular staff meeting so that every one understands what needs to be done and when. Every one at the 14th DAA wants to comply with all of the requirements that need to done. Our response to the reportable conditions is as follow:

UNRECORDED LIABILITY:

The Fair is making every effort to work with CFSA to get our IRS liability recorded as a accounts payable as soon as possible. It was not on the December Financials and I am trying to find out why now.

DELEGATED AND OPPORTUNITY PURCHASING:

a. We are working on trying to improve and follow compliance with this authority. We have had two employees working this for the past year and we believe that we are in complence as of this date.

STANDARD AGREEMENT:

a. We feel we have complied in 2009 by issuing contracts the W9 forms.
b. We will be making every effort to comply with this issue in 2010.
c. We will be making every effort to comply with this issue in 2010.
d. We do have a control log in place but it is not the one in the approved purchasing manual. We will change over to the control log in this manual for 2010.
e. We will be making every effort to comply with this issue in 2010
f. After learning about this in 2009, we did add the Std. 215 to the Std. 210. We will be making every effort to comply to this in 2010.
g. This has been complied in 2009 and will continue for the upcoming year.

14TH DISTRICT AGRICULTURAL ASSOCIATION
2601 East Lake Avenue • Watsonville, CA 95076 • voice: 831-724-5671 • fax: 831-761-5827 • www.santacruzcountyfair.com

h. We will be making every effort to comply to this issue in 2010.

i. This was not done prior to December 31st, 2009 however, we do have this in our Agenda for the January 19, 2010 Board of Directors meeting. We will make every effort to remember to put this on the December Board meeting Agenda.at the end of 2010 for 2011 approval.

CASH CONTROLS:

a. We will be making every effort to comply to this issue in 2010.

b. Two signatures are now required when a check is over $5,000.00 or more. No employee is signing there own checks.

c. We completed and submitted this form in 2009 and will continue to do so.

UNRESTRICTED NET RESOURCE ACCOUNTS:

a. I have contacted May, the accountant that does our books at CFSA and she informed me that this was done for 2009 and will be done for 2010. All resources are now posted to account 291.

Jody Belgard Akimoto, Vice President
14th District Agricultural Association

John Kegebein, Interm Manager
14th District Agricultural Association

CDFA EVALUATION OF RESPONSE

A draft copy of this report was forwarded to the management of the 14th DAA, Santa Cruz County Fair, for their review and response. We have reviewed the response and it satisfactorily addresses the findings contained in this report.

DISPOSITION OF AUDIT RESULTS

The findings in this management report are based on fieldwork that my staff performed between July 20, 2009 and July 31, 2009. My staff met with management on July 31, 2009 to discuss the findings and recommendations, as well as other issues.

This report is intended for the information of the Board of Directors, management, and the Division of Fairs and Expositions. However, this report is a matter of public record and its distribution is not limited.

Ron Shackelford

Ron Shackelford, CPA
Chief, Audit Office

July 31, 2009

REPORT DISTRIBUTION

Number	Recipient
1	President, 14th DAA Board of Directors
1	Chief Executive Officer, 14th DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office